

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3755H.011
 Bill No.: HB 1444
 Subject: Taxation and Revenue - General; Tax Credits; Taxation and Revenue - Income;
 Tax Incentives; Health, Public; Drugs and Controlled Substances
 Type: Original
 Date: January 10, 2024

Bill Summary: This proposal authorizes a tax credit for donations made to certain organizations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue Fund*	\$0	Up to (\$2,587,873)	Up to (\$2,567,116)
Total Estimated Net Effect on General Revenue	\$0	Up to (\$2,587,873)	Up to (\$2,567,116)

*Oversight will reflect the maximum cap authorization (subject to appropriation) for the Contribution to Recovery Services Tax Credit of up to \$2.5 million as well as DOR's additional FTE.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue Fund	0 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	0 FTE	1 FTE	1 FTE

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 135.440 Tax Credit for donations to Recovery Support Services

Officials from the **Department of Revenue (DOR)** note:

Starting January 1, 2025, this section would create a new tax credit equal to 50% of the taxpayer's contribution to a recovery support services qualified organization. This tax credit will not be refundable, transferable, assignable, nor sellable; however, any tax credit that cannot be claimed for the tax year it is made may be carried forward to the next four succeeding tax years until the full credit has been claimed. The Department of Mental Health shall determine annually, which organizations in Missouri may be qualified. The qualified organization is to provide information to the Department of Revenue of each taxpayer that is making the contribution(s) to the organization and claiming the tax credit.

The cap of this program is \$2,500,000 annually but is subject to appropriations. If the cap has been met, the tax credits would be allowed based off the order in which they were claimed. This program will automatically sunset on December 31, 2031.

This proposal begins on January 1, 2025 and therefore will not have an impact until January 1, 2026 (FY 2026) when the first tax returns are filed claiming the credit. DOR will show the credit as \$0 (no appropriation is made) to Up to the \$2,500,000 cap should an appropriation be made that is lower than the cap.

Fiscal Year	Loss to GR
2025	\$0
2026	\$0 or (up to \$2,500,000)
2027	\$0 or (up to \$2,500,000)

This proposal creates a new tax credit that would require a new line being added to the Form MO-TC (\$7,138), updates to our website and changes to our individual income tax computer system (\$1,785). These changes are estimated to cost \$8,923. DOR's existing tax credit staff is no longer able to take on any additional tax credits without additional resources. Due to the intensive knowledge of credits that is needed, DOR is not able to use temporary staff to help with processing these returns. This proposal would require at least 1 FTE Associate Customer Service Rep at a salary of \$35,880.

Section 135.800

This is amended to include this tax credit in the list of "domestic and social tax credits". These changes will not have a fiscal impact.

Oversight notes officials from the DOR assume the proposal will have a direct fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect the DOR's FTE impact in the fiscal note.

Oversight notes the proposal allows for anyone contributing to recovery services organizations in minimum amount of donation/contribution of \$250 or more to receive 50% tax credit.

Oversight notes "Recovery support services", includes care coordination, recovery coaching, spiritual counseling, group support, employment services, job training, educational services, and recovery housing and transportation, in coordination with substance use disorder service providers.

Oversight notes the proposal allows recovery support services function in variety of settings, including community, faith-based, and peer recovery organizations.

Oversight notes the proposal allows for maximum, subject to appropriation, \$2.5 million in tax credits annually as of January 1, 2025. Therefore, Oversight will reflect cost, up to \$2.5 million in tax credits, effective FY 2026 and thereafter, in the fiscal note.

Officials from the **Office of Administration – Budget & Planning (B&P)** note:

The proposed legislation creates a new tax credit. For all tax years beginning on or after January 1, 2025, a taxpayer shall be allowed to claim a tax credit against the taxpayer's state tax liability in an amount equal to 50% of the taxpayer's contribution to a qualified organization that provides recovery support services and assistance to justice-involved individuals and people in recovery from substance use disorders. No more than \$2.5M can be redeemed in any calendar year and no more than 20% of the total tax credits available shall be authorized to any particular qualified organization.

These credits are not refundable but may be carried forward to the next four succeeding tax years.

This credit is subject to appropriation. To the extent the general assembly makes appropriations for this credit, TSR may be reduced up to \$2.5M.

Officials from the **Department of Commerce and Insurance (DCI)** note:

A potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) in FY2026 and FY2027 as a result of the creation of a tax credit for contributions to qualified organizations that provide recovery support services and assistance to justice-involved individuals in recovery from substance use disorders. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock

Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year and which insurers will qualify for the new tax credit.

The department will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Oversight notes that the DCI is provided with core funding to handle a certain amount of activity each year. Oversight assumes DCI could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DCI could request funding through the appropriation process. Lastly, Oversight, for purposes of simplifying this fiscal note, will assume the credits will be taken against income taxes.

Officials from the **Department of Mental Health (DMH)** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note.

Officials from the Oversight Division assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE			
<u>Costs – Section 135.440 – Recovery Support Services Tax Credit</u>	\$0	Up to (\$2,500,000)	Up to (\$2,500,000)
<u>Costs – DOR - Section 135.440</u>			
Personnel Service	\$0	(\$36,598)	(\$37,330)
Fringe Benefits	\$0	(\$28,937)	(29,204)
Expense & Equipment	<u>\$0</u>	<u>(\$22,338)</u>	<u>(\$582)</u>
<u>Total Costs – DOR 1 FTE</u>	\$0	(\$87,873)	(\$67,116)
FTE Change	0 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>Up to (\$2,587,873)</u>	<u>Up to (\$2,567,116)</u>
Estimated Net FTE Change on General Revenue	0 FTE	1 FTE	1 FTE

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

A direct fiscal impact to small non-profits businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

Subject to appropriation, beginning on or after January 1, 20025, this bill establishes a tax credit against a taxpayer's state tax liability of up to 50% of their contribution to a qualified organization that provides support services and assistance to justice-involved individuals and people in recovery from substance use disorders.

Qualified organizations shall not have an annual budget in excess of \$5 million, any employee who receives more than \$125,000 in annual compensation, or include any housing organization unless accredited by the National Alliance of Recovery Residences or Adult and Teen Challenge USA.

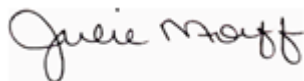
Qualified organizations are permitted to decline contributions. Any tax credit that cannot be claimed for the tax year in which the contribution is made may be carried forward to the next four succeeding tax years until the full credit has been claimed.

No taxpayer shall be allowed to claim a credit unless the total amount of their contribution has a value of at least \$250, except for any excess credit carried forward. The cumulative amount of tax credits allowed to all taxpayers shall not exceed \$2.5 million per tax year. In any given calendar year, no more than 20% of the total available tax credits shall be authorized for contributions to a single qualified organization. The tax credit created in this bill shall be subject to the provisions of the Tax Credit Accountability Act. This bill sunsets on December 31st, 6 years after the effective date.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration – Budget & Planning
Department of Mental Health
Joint Committee on Administrative Rules
Office of the Secretary of State
Oversight Division



Julie Morff
Director
January 10, 2024



Ross Strobe
Assistant Director
January 10, 2024